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SUBJECT: DONOR FRUSTRATIONS WITH TANZANIA

REF: 2008 Dar es Salaam 809

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¶1. SUMMARY. During the late November Annual National Policy Dialogue among the Government of Tanzania, donors, and civil society organizations, donors expressed frustration with both the lack of GOT progress in many areas since the previous year's meetings and with the poor quality of the dialogue. Particular areas of concern include recent lack of progress on anti-corruption, the business environment, and public financial management, as well as the longer-term issues of persistent income poverty and the increasing impact of rapid population growth. Privately, the other leading donors acknowledge that their leverage with the GOT is limited, because the GOT knows that the pressure in capitals is to maintain or increase funding levels to stable, relatively well governed Tanzania. End Summary.

¶2. Government, donors and civil society met over several days in late November to review progress on poverty reduction and indicators of achievement tied to General Budget Support. (Note: Roughly 12.5 percent of Tanzania's annual budget comes from direct donor support; the figure rises to 33 percent when basket and project funding is considered.) Tanzania is entering the final year of its five-year national strategy for growth and reduction of poverty, known by its Swahili initials as "Mkukuta," and has started planning for "Mkukuta II." During the meetings, donors expressed their dissatisfaction with sparse high-level GOT participation, limited opportunities for dialogue, and the GOT's lack of consultation with donors in the development of Mkukuta II. Donors are particularly concerned with the GOT's slow progress and failure to include donors in the review of the first Mkukuta, such that planning for the second round is proceeding without sufficient perspective on the accomplishments - and failings - of the first. (Comment: Although donor complaints about "quality dialogue" are perennial, the heightened intensity of feeling this year reflects both a greater perception of GOT disengagement and concerns about lack of progress on substance. End comment.) The principal GOT interlocutor, Finance Minister Mkulo, was alternately aggressive and conciliatory, calling for an evaluation of donors' adherence to their commitments but also offering to address areas of disagreement (privately).

Corruption and Business Environment

¶3. Donors took the GOT to task for stagnation in efforts to fight corruption and improve the business environment. The 2008 Dialogue was preceded and immediately followed by Tanzania's first

prosecutions in grand corruption scandals (ref); since then, there have been no new high-level prosecutions. The Director General of the GOT's anti-corruption body (PCCB), Edward Hoseah, defended his agency's record as having increased overall prosecutions and continuing to obtain convictions (albeit in petty corruption cases).

Hoseah also argued that Tanzania's decline in Transparency International's Corruption Perception Index could be attributed to increased media reporting on corruption over several years and pointed out that Tanzania remains ahead of Kenya and Uganda in perceptions of corruption. GOT officials acknowledged problems with Tanzania's business and investment climate but called for the donors to be patient as the government developed a new round of reforms.

Persistent Poverty

¶4. To the consternation of donors and the GOT, Tanzania's sustained record of macroeconomic stability and economic growth in the 2000s has not translated into a reduction of income poverty. The 2008 Household Budget Survey showed that from 2001-2007, the proportion of Tanzanians living below the national poverty line fell from 38 percent to 33 percent. Because of rapid population growth, the absolute number of the poor increased by over a million. With the GOT's increased political emphasis on agriculture, donors are pressing for measures that would include (or principally benefit) the poor in new agricultural policies and investments. While the GOT continues to see population growth as a sensitive topic, it has indicated a willingness to engage in dialogue with donors on the subject.

Donor largesse to continue

¶5. During the Policy Dialogue, donors warned the GOT that lack of progress against corruption and in improving the business climate could put at risk continuation of current high levels of donor

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support. Indeed, there have been some changes to funding over the last six months in relation to donor concerns about governance and corruption issues. The UK declined to grant Tanzania a general budget "performance bonus" and the Netherlands reduced its level of direct budget support (in relation to a specific investment dispute), although both governments have essentially maintained their overall support levels by redirecting funding to projects. The World Bank lowered its ceiling for Tanzania's access to concessional loans, but is also planning supplemental funding in relation to the global financial crisis. Privately, some donors have told us that whatever their misgivings about both the process of dialogue with the GOT and Tanzania's somewhat lackluster achievements, they are unlikely to substantially reduce their support here. As with our Millennium Challenge rankings, where Tanzania scores well against its low-income peers, other donors continue to consider Tanzania a relatively good bet for effective use of funds. Some of our donor colleagues complain that pressure from headquarters prevents them from making a serious threat of reducing funding.

Tanzania's 2009/10 budget: a snapshot

¶6. The GOT's current-year budget (July 1, 2009 to June 30, 2010) of Tsh 9.5 trillion (USD 7.3 billion), up 32 percent from the prior year, builds on a several year trend of double-digit increases and reflects both election-year political realities and a stimulus response to the impact of the global economic crisis. Education (18 percent), infrastructure (11.5 percent) and health (10 percent) continue as the leading sectors for expenditure, while agriculture (7 percent, up from 6.4 percent) and water (3.7 percent, up from 3.2 percent) saw the greatest increases, in keeping with the GOT's "Agriculture First" policy. Despite the overall increase in the budget and Tanzania's ongoing power problems, energy sector funding (3 percent) declines by nearly a quarter under this budget. Outside development-related sectors, home affairs including law enforcement (4 percent) and defense (3 percent) grow slightly faster than the overall budget.

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